



**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**

Financial Statements and Schedules

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP

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Independent Auditors' Report

Board of Directors
Nebraska Property and Liability
Insurance Guaranty Association:

We have audited the accompanying statements of assets and fund balance arising from cash transactions of Nebraska Property and Liability Insurance Guaranty Association (the Association) as of December 31, 2003 and 2002, and the related statements of revenue collected and expenses paid and change in fund balance for the years then ended. These financial statements are the responsibility of the Association's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and fund balance arising from cash transactions of Nebraska Property and Liability Insurance Guaranty Association as of December 31, 2003 and 2002, and its revenue collected and expenses paid and change in fund balance for the years then ended, on the basis of accounting described in note 1.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information included in note 4 is presented for purposes of additional analysis and is not a required part of the cash basis financial statements. Such information has not been audited, and, accordingly, we express no opinion on it. The supplementary information included in schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

KPMG LLP

February 20, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**

Statements of Assets and Fund Balance
Arising from Cash Transactions

December 31, 2003 and 2002

	Assets	<u>2003</u>	<u>2002</u>
Cash	\$	81,360	78,900
Investment pool accounts		2,000,000	1,168,000
U.S. Treasury notes		12,142,853	9,243,930
Deposit		<u>775</u>	<u>775</u>
Total assets	\$	<u><u>14,224,988</u></u>	<u><u>10,491,605</u></u>
	Fund Balance		
Fund balance	\$	<u><u>14,224,988</u></u>	<u><u>10,491,605</u></u>

See accompanying notes to financial statements.

**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**

Statements of Revenues Collected and
Expenses Paid and Change in Fund Balance

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenue collected:		
Assessments	\$ 4,287,876	5,450,826
Interest income	188,526	142,756
Liquidation proceeds and other	2,054,448	471,858
Total revenue collected	<u>6,530,850</u>	<u>6,065,440</u>
Expenses paid:		
Losses, net	2,021,079	2,502,285
Loss adjustment expenses	92,223	60,889
General and administrative	684,165	634,968
Total expenses paid	<u>2,797,467</u>	<u>3,198,142</u>
Revenue collected over expenses paid	3,733,383	2,867,298
Fund balance, beginning of year	<u>10,491,605</u>	<u>7,624,307</u>
Fund balance, end of year	<u>\$ 14,224,988</u>	<u>10,491,605</u>

See accompanying notes to financial statements.

**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2003 and 2002

(1) Organization and Summary of Significant Accounting Policies

(a) Organization

The Nebraska Property and Liability Insurance Guaranty Association (the Association) was created in May 1971 by Nebraska state statute as a nonprofit, unincorporated legal entity. The purpose of the Association is to provide a method of payment for certain claims against insolvent insurance companies, to avoid financial loss to claimants or to policyholders in the State of Nebraska, to assist in the detection and prevention of insurer insolvencies, and to provide an association of insurers against which the cost of such protection may be assessed in an equitable manner. A majority of the Association's revenues are derived from Nebraska-based insurers.

(b) Basis of Accounting

The Association's policy is to prepare its financial statements on the basis of cash receipts and disbursements. Under this basis, revenues are recognized when collected rather than when earned and certain expenditures are recognized when paid rather than when incurred. Consequently, assessments receivable from insurers and amounts due for supplies received, services rendered, or estimated unpaid claims are not included in the financial statements.

(c) Allocation of Revenue Collected and Expenses Paid

The Association attempts to specifically identify, to the degree allowable, all revenue collected and expenses paid. Thus, each liquidation receives its share of revenue and expense items directly related to it. The following items are, for the most part, specifically identifiable: assessments collected, losses paid, loss adjustment expenses paid, refund of assessments, and certain general and administrative expenses.

(d) Investments

The Association carries its investments at cost, which approximates market. While the Association intends to hold its investments in debt securities to maturity, its ability to do so may be affected by the timing and amount of claims presented as a result of insurer insolvencies. A disposition of investment in debt securities may result in a realized gain or loss using a cash-basis method of accounting for the difference between fair value and cost of the security at the date of sale. The fair market value of U.S. Treasury notes was \$12,043,594 and \$9,142,660 at December 31, 2003 and 2002, respectively. Premiums paid and discounts received in connection with these investments are not amortized or accrued into interest income over the life of the investment. Rather, they are recorded as a component of net interest income when received or paid.

The U.S. Treasury notes mature as follows:

	<u>Cost</u>	<u>Fair market value</u>
2003	\$ 12,142,853	12,043,594

**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**

Notes to Financial Statements

December 31, 2003 and 2002

These amounts are estimates, and the ultimate settlement of losses may vary from the amounts above. No representation is made by the Association that the ultimate liability may not be in excess of the above figures. Certain insolvencies have not had assessments levied as of December 31, 2003 to cover the estimated claims.

(5) Lease Commitments

The Association leases office space under a noncancelable operating lease which expires November 30, 2006. Total lease expense for office space was approximately \$12,300 and \$12,000 for the years ended December 31, 2003 and 2002, respectively. Future annual lease payments under terms of the lease are approximately \$12,600 in 2004; \$12,900 in 2005; and \$12,000 in 2006.

(6) Refund of Assessments

The Association assesses member insurers for insolvencies based on case reserves estimated at the time of insolvency. The member insurers then offset the assessments against their respective premium tax liabilities. If such funds, including earned interest, are sufficient to cover the claim payments on the insolvencies, the Association's board of directors will authorize and pay a refund of assessments as reflected in the accompanying statements of revenue collected and expenses paid and change in fund balance.

Schedule 1

NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATIONCombining Schedule - Revenue Collected and
Expenses Paid and Change in Fund Balance

Year ended December 31, 2003

	M&W & Missouri General	Security Casualty	Excalibur	Aspen Indemnity	Ideal Mutual	Union Indemnity	Commercial Standard	Iowa National Mutual	Transit Casualty	Carriers	Midland	Carried forward
Date of liquidation	12/10/1975	12/4/1981	9/5/1984	9/6/1984	2/7/1985	7/16/1985	10/4/1985	10/10/1985	12/4/1985	1/16/1986	4/3/1986	
Revenue collected:												
Assessments	—	—	—	—	—	—	—	—	—	—	—	—
Interest income	—	715	14,103	—	9,501	—	—	24,169	1,644	19,235	—	69,367
Liquidation proceeds and other	—	—	—	—	—	—	—	—	28,626	—	—	28,626
Total revenue collected	—	715	14,103	—	9,501	—	—	24,169	30,270	19,235	—	97,993
Expenses paid:												
Losses, net	—	—	—	—	—	—	—	6,933	—	—	—	6,933
Loss adjustment expenses	—	—	—	—	—	—	—	—	—	—	—	—
Refund of assessments	—	—	—	—	—	—	—	—	—	—	—	—
General and administrative	—	—	—	—	—	—	—	—	—	—	—	—
Depreciation and amortization	—	—	—	—	—	—	—	—	—	—	—	—
Total expenses paid	—	—	—	—	—	—	—	6,933	—	—	—	6,933
Revenue collected over (under) expenses paid	—	715	14,103	—	9,501	—	—	17,236	30,270	19,235	—	91,060
Fund balance (deficit), beginning of year	—	43,024	848,861	—	571,843	—	—	1,457,332	84,903	1,157,719	—	4,163,682
Fund balance (deficit), end of year	—	43,739	862,964	—	581,344	—	—	1,474,568	115,173	1,176,954	—	4,254,742

(Continued)

NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATIONCombining Schedule - Revenue Collected and
Expenses Paid and Change in Fund Balance

Year ended December 31, 2003

Date of liquidation	Brought forward	American Druggists 4/30/1986	Allied Fidelity 7/15/1986	Mission 2/24/1987	Mission National 2/24/1987	Integrity 3/24/1987	American Excel 5/31/1988	American Inter-Insurance 8/31/1988	American Mutual 3/9/1989	American Mutual Liability 3/9/1989	American Universal 1/8/1991	Carried forward
Revenue collected:												
Assessments	\$ 69,367	—	—	—	—	—	—	—	—	—	—	—
Interest income	28,626	2,359	477	2,695	5,637	1,145	—	—	4,077	573	—	83,971
Liquidation proceeds and other	97,993	2,359	477	2,695	5,637	2,332	—	—	—	—	6,869	40,186
Total revenue collected						3,477	—	—	4,077	573	6,869	124,157
Expenses paid:												
Losses, net	6,933	—	—	—	—	—	—	—	7,478	—	—	14,411
Loss adjustment expenses	—	—	—	—	—	—	—	—	—	—	—	—
General and administrative	—	—	—	—	—	375	—	—	—	—	—	375
Depreciation and amortization	—	—	—	—	—	—	—	—	—	—	—	—
Total expenses paid	6,933	—	—	—	—	—	—	—	7,478	—	—	14,786
Revenue collected over (under) expenses paid	91,060	2,359	477	2,695	5,637	3,102	—	—	(3,401)	573	6,869	109,371
Fund balance (deficit), beginning of year	4,163,682	—	28,712	162,221	339,307	67,793	—	—	247,981	34,501	—	5,044,197
Fund balance (deficit), end of year	\$ 4,254,742	2,359	29,189	164,916	344,944	70,895	—	—	244,580	35,074	6,869	5,152,500

**NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION**
Combining Schedule - Revenue Collected and
Expenses Paid and Charge to Policyholders
Year ended December 31, 2003

	Brought Forward	Edison 2/20/1991	Western Employees 6/15/1991	Blackboard 9/26/1991	Employees Cannery 10/6/1994	Professional Committee 4/7/1994	United Community 1/1/1995	Lutheran Brethren 1/2/1996	United Southern 9/18/1997	American Fidelity 1/2/1997	Comin Comprehensive 9/26/2000	Credit General 1/2/2001	Acceleration National 2/26/2001	Hill America 5/9/2001	Reflex 10/2/2001	PRG-CD 2/10/2003	Home Insurance 6/13/2003	Frontier Insurance 7/2/2003	Logan Insurance 7/29/2003	Williams Insurance 7/29/2003	Admini- strative	Total
(See Schedule 1)																						
Revenue collected:																						
Assessment	\$ 83,871	—	—	—	792	—	3,824	1,087	433	7,853	16,666	30,365	—	—	2,840,245	98,831	487,917	—	348,893	—	63,758	4,293,876
Investment income	40,156	—	—	7,607	22,222	—	—	—	—	31,348	123,651	—	—	—	12,834	31,474	—	—	—	—	13,299	184,524
Liquidation proceeds and other	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,498,540	379,500	—	—	—	—	—	2,054,448
Total revenue collected	124,027	—	—	7,607	22,994	—	3,824	1,087	433	39,201	128,317	30,365	—	—	4,371,199	919,805	487,917	—	348,893	—	64,057	6,533,848
Expenses paid:																						
Liabilities, net	14,411	—	—	18,830	—	—	—	—	—	—	19,752	18,470	—	50,889	1,029,951	241,364	8,053	212,322	3,874	—	—	2,531,571
Investment expenses	—	—	—	1,640	—	—	—	—	—	—	76	2,774	—	15,708	44,478	33,892	1,604	36,893	—	—	—	81,224
General and administrative	375	—	—	—	—	—	—	—	—	—	—	—	—	15,708	108,316	273,997	1,604	14,656	—	236,217	—	644,164
Depreciation and amortization	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total expenses paid	14,786	—	—	19,952	—	—	—	—	—	—	19,828	21,244	—	66,597	1,177,676	555,353	44,452	295,181	3,874	—	—	3,231,759
Revenue collected over (under) expenses paid	109,241	—	—	(12,345)	22,994	—	3,824	1,087	433	39,231	108,479	(13,229)	—	(66,597)	3,243,463	364,452	442,465	(295,181)	(96,574)	(3,874)	(112,260)	3,302,089
Fund balance (deficit), beginning of year	2,064,197	—	—	465,532	80,927	51	168,971	6,914	26,869	473,686	286,861	1,911,866	(12,457)	(37,732)	(21,683)	1,277,526	442,425	—	—	894,433	—	10,481,686
Fund balance (deficit), end of year	\$ 3,133,394	—	—	453,237	53,921	51	172,795	64,971	28,302	512,857	395,340	1,798,637	(12,457)	(12,457)	3,121,780	1,795,548	442,425	(295,181)	(96,574)	(1,874)	712,465	14,224,988

See accompanying independent auditors' report.

NEBRASKA PROPERTY AND LIABILITY

INSURANCE GUARANTY ASSOCIATION

Combining Schedule - Revenue Collected and
Expenses Paid and Change in Fund Balance

From inception to December 31, 2003

	Closed insol- vencies	M&W & Missouri General	Security Casualty	Excaltbur	Aspen Indemnity	Ideal Mutual	Union Indemnity	Commercial Standard	Iowa National Mutual	Transit Casualty	Carriers	Midland	Carried forward
Revenue collected:													
Assessments	\$ 2,891,755	347,943	62,846	1,751,795	136,657	1,766,568	6,462	36,377	4,083,824	1,606,359	2,103,179	215,529	15,009,294
Interest income	72,110	141,802	22,203	641,716	—	441,552	—	10,561	1,343,614	110,660	1,257,514	—	4,041,732
Liquidation proceeds and other	4,427,990	151,499	51,370	981,914	138,673	530,550	428	—	2,786,062	126,911	539,728	2,273	9,737,398
Total revenue collected	7,391,855	641,244	136,419	3,375,425	275,330	2,738,670	6,890	46,938	8,213,500	1,843,930	3,900,421	217,802	28,788,424
Expenses paid:													
Losses, net	5,719,885	148,907	36,209	1,159,701	97,696	1,293,870	4,402	6,233	2,228,091	120,132	590,688	134,309	11,540,083
Loss adjustment expenses	33,611	8,786	3,149	16,711	1,104	25,121	—	454	84,463	7,326	8,189	256	189,170
Refund of assessments	1,613,817	454,061	20,189	1,137,420	138,048	619,134	—	29,913	4,083,823	1,501,224	1,983,550	207	11,581,386
General and administrative	24,542	29,338	32,447	197,620	38,280	216,945	2,488	9,860	338,779	98,746	139,445	80,098	1,208,588
Depreciation and amortization	—	152	688	1,008	202	2,297	—	478	3,776	1,329	1,595	2,932	14,457
Total expenses paid	7,391,855	641,244	92,682	2,512,460	275,330	2,157,327	6,890	46,938	6,738,932	1,728,757	2,723,467	217,802	24,533,684
Fund balance (deficit), end of year	\$ —	—	43,737	862,965	—	581,343	—	—	1,474,568	115,173	1,176,954	—	4,254,740

NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATIONCombining Schedule - Revenue Collected and
Expenses Paid and Change in Fund Balance

From inception to December 31, 2003

	Brought forward	American Druggists	Allied Fidelity	Mission	Mission National	Integrity	American Excel	American Inter- Insurance	American Mutual	American Mutual Liability	American Universal	Carried forward
Revenue collected:												
Assessments	\$ 15,009,294	14,942	67,261	327,160	537,231	74,497	221,317	309,980	1,199,966	74,949	40,080	17,876,677
Interest income	4,041,732	—	1,211	118,498	78,937	10,493	6,251	—	41,842	42,632	3,431	4,345,027
Liquidation proceeds and other	9,737,398	2,360	68,816	343,558	556,172	73,997	121,240	172,043	57,676	190,467	49,599	11,373,326
Total revenue collected	28,788,424	17,302	137,288	789,216	1,172,340	158,987	348,808	482,023	1,299,484	308,048	93,110	33,595,030
Expenses paid:												
Losses, net	11,540,083	6,500	52,714	258,453	498,000	5,000	127,726	123,047	730,293	5,063	—	13,346,879
Loss adjustment expenses	189,170	—	441	1,545	—	—	970	225	30,635	—	1,486	224,472
Refund of assessments	11,381,386	(7,724)	26,570	277,057	269,117	—	135,547	254,396	—	219,759	34,426	12,790,534
General and administrative	1,208,588	15,666	26,993	86,146	58,970	80,981	82,771	101,110	286,947	47,180	49,896	2,045,248
Depreciation and amortization	14,457	501	1,362	1,099	1,308	2,110	1,794	3,245	7,030	971	432	34,329
Total expenses paid	24,533,684	14,943	108,100	624,300	827,395	88,091	348,808	482,023	1,054,905	272,973	86,240	28,441,462
Fund balance (deficit), end of year	\$ 4,254,740	2,359	29,188	164,916	344,945	70,896	—	—	244,579	35,075	6,870	5,153,568

NEBRASKA PROPERTY AND LIABILITY
INSURANCE GUARANTY ASSOCIATION
Statement of Assets, Liabilities and
Equity - Paid and Change in Fund Balance
From inception to December 31, 2003

	Brought forward	Edison Employees	Western Employees	Blackboard Employees	Employers County	Professional General	United Community	Lutheran Brethren	United Southern	American Eagle	Comm. Compensation	Credit General	Acquisition National	Hill America	Refugee	PHICO	Home Insurance	Fremont Insurance	Logan Insurance	Winn-Dixie Insurance	Admission Agency	Total
Revenue collected	\$ 11,874,537	149,909	45,000	1,140,000	598,139	24,929	—	219,301	134,311	44,996	478,970	496,361	2,538,218	—	4,948,990	2,139,818	487,077	—	340,953	—	343,512	32,997,451
Interest income	4,345,027	5,887	441	210,944	197,074	1,469	—	30,008	15,492	6,702	65,917	7,353	54,842	—	12,834	21,474	—	—	—	—	312,383	5,246,747
Liquidation proceeds and other	11,373,326	19,764	(954)	904,931	265,281	(2,997)	5,197	24,410	14,397	15,307	63,828	173,651	—	—	1,696,540	679,007	—	—	—	—	89,371	14,473,056
Total revenue collected	33,592,890	175,654	44,487	2,355,875	1,060,494	24,401	5,197	273,721	154,200	67,005	608,715	676,365	2,593,260	—	6,668,364	3,940,307	487,077	—	340,953	—	1,145,266	52,677,254
Expenses paid:																						
Liability on	17,344,379	44,300	17,731	943,295	396,618	538	—	30,000	21,003	2,307	34,734	197,238	933,408	7,951	2,433,183	861,518	36,603	203,439	215,722	3,874	—	20,203,336
Liability on	224,472	—	—	12,866	5,219	—	—	4,051	814	—	3,361	8,106	25,443	—	41,710	44,377	6,765	16,897	8,316	—	—	425,290
Refund of premium	12,798,534	64,884	24,777	309,777	937,742	(4,460)	(4,460)	(3,114)	67,125	37,109	59,647	64,900	244,479	—	390,177	541,177	1,600	14,460	7,101	—	420,647	13,379,366
Depreciation and amortization	2,345,000	6,800	38	5,995	14,688	231	35	69,792	12,152	128	126	266	—	—	—	—	—	—	—	—	2,154	46,508
Total expenses paid	32,441,462	175,654	44,487	1,162,618	966,572	23,999	5,197	101,126	89,229	40,704	96,188	231,226	1,207,921	12,452	3,277,504	1,447,032	44,652	295,188	331,179	3,874	433,891	38,452,266
Paid balance (deficit), \$	5,151,428	—	—	1,193,257	93,922	51	—	172,595	64,971	26,301	511,527	395,139	1,385,339	(12,452)	3,390,860	1,493,275	442,425	(29,149)	109,774	(3,874)	712,465	14,224,988

See accompanying independent auditors' report.